



Practices That Set The Standard

(transmitted via email)

May 15, 2006

Ms. Judy Pool Boutchee
Casualty Actuary
Illinois Department of Financial and
Professional Regulation
Division of Insurance
320 West Washington Street
Springfield, Illinois 62627-0001

Dear Judy:

Please find attached an Excel file containing the exhibits for American Physicians Assurance Group in response to your April 4, 2006 request for medical malpractice data as required by Public Act 94-0677. In addition to the Excel file, we have included responses to your Company Defined Items on page 2-3 of this letter.

The individual exhibits include data on a combined basis from both insurance companies who write medical malpractice in the state of Illinois:

- American Physicians Assurance Corporation (NAIC#33006)
- APSpecialty Insurance Corporation (NAIC#10229)

We believe we have responded to your data request appropriately based on the guidance provided in your letter. In the event you were expecting different data or reports formatted in a different manner, please do not hesitate to contact us.

Sincerely,

A handwritten signature in blue ink that reads "Kevin M. Dyke". The signature is fluid and cursive.

Kevin M. Dyke, FCAS, MAAA
Vice President and Chief Actuary
Direct (517) 324-6619
Email kdyke@apassurance.com

Attachments:

Company responses (pages 2-4)

Microsoft Excel file - **AP C5_1_Exhibits 5-15-06.xls**

Responses to Company Defined Items:

Company Defined Item#1:

County is defined as the premium county, the county in which the premium was generated. This is consistent with our ratemaking methodology. No changes have been made to premium county definitions over the past 10 years.

Company Defined Item#2:

Incurred losses are defined as requested. Claims practices have not changed in past 10 years, but both internal and external actuaries have noted case reserve strengthening starting in 2004 as a result of a change in the claims manager responsible for handling Illinois.

Company Defined Item#3:

The effective date of our extended reporting endorsement policies is the date in which the endorsement was issued. For example, if the last claims made policy was issued on 1/1/2004 and subsequently endorsed for extended reporting, the effective date for the tail policy would be 1/1/2005. If a limited extension is issued (e.g. one year) and the policy is subsequently endorsed for an additional year, then the 2nd extension would have an effective date of 1/1/2006.

Company Defined Item#4:

Claims are defined as closed when a closed date is assigned. This definition is consistent throughout the database. Also note that claims are counted on a per defendant basis as requested. Thus, if multiple insureds are named in the same suit, separate claim records are established for each insured.

Company Defined Item#5:

The Company writes claims made professional liability policies for physicians and surgeons throughout Illinois. Coverage for professional corporations is offered either as an additional named insured under the physicians limit, or for an additional premium, the physicians may purchase separate limits for the corporation. Tail endorsements are issued either for additional premium as defined by our rating manual or for free if the physician meets certain eligibility criteria. In addition, the Company occasionally writes policies for emergency rooms, surgical centers, and urgent care facilities on a per patient visit basis, per our rating manual. Note the rating manual referenced herein is the one that has been maintained on file with the Division of Insurance.

Company Defined Item#6:

The Company does not utilize a class system to develop rates. Rather, it develops rates for each individual specialty based on the experience of that particular specialty, credibility weighted with the experience of similar specialties. The Company's base class (specialty) and territory are defined as follows:

Base class (specialty)
Base territory

Family/General Practitioners – No Surgery (Code 420)
Territory 1 – Cook, Madison, and St. Clair Counties

Company Defined Item#7:

Extended reporting endorsement (ERP) exposures are defined as a single policy within Exhibit C-5(1)(b), earned immediately upon issue for unlimited ERPs and earned throughout the year for the 1st and 2nd annual extensions. Because the 3rd annual extension extends the reporting period to an indefinite period, the exposure issued on the 3rd extension is earned immediately similar to the unlimited ERPs. This approach to earning exposures is consistent with statutory accounting principles.

For Exhibit C-5(1)(c)(i), the ERP exposures are earned on the basis of the company's step and tail factors to facilitate comparison with losses arrayed by accident year and development year.

Company Defined Item#8:

See Exhibit C-5(1)(c)(iv) in the attached Excel file.

Company Defined Item#9:

The expenses included in the Expense factor on Exhibit C-5(c)(v) include all company expenses exclusive of loss adjustment expenses, premium taxes, and commissions. The Expense factor is intended to cover company activities including but not limited to underwriting and policy issuance, risk management, marketing, human resources, compliance, corporate management, accounting, actuarial, information systems, attorney fees, internal/external audit services, issuing of actuarial opinions, and facility management.

Company Defined Item#10:

The "other" factors listed in Exhibit C-5(c)(v) include other expenses provided for in premiums: commissions, DDR, profit load, taxes, and investment income offset. The commissions represent the external agent and broker fees associated with writing insurance policies. DDR stands for death, disability, and retirement and is intended to provide funding for the cost of issuing free extended reporting period (ERP) endorsements based on certain eligibility criteria. The Company's profit load, in combination with the recognition of investment income earned on reserves, constitutes the provision required for the Company to meet its overall profit objectives.

An additional item that is considered in the ratemaking process is the adjustment for discounts from manual rates. This is shown on Exhibit C-5(c)(v) as "Adjustments to Manual Rates" and was equal to -10% in our last rate filing. We recognize and expect a number of insureds will qualify for discounts such as claims-free that reduce manual premiums. Also, based on the criteria within our rating manual, insureds may be eligible for schedule rating which further adjusts the manual rate for certain individual risk characteristics.